

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ADP-00 AID-20 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10 SS-15 STR-08

CEA-02 PA-03 PRS-01 USIA-12 AGR-20 RSR-01 /182 W

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R 110825Z JUL 73

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 7563

TREAS DEPT WASHDC

INFO AMEMBASSY LONDON

AMEMBASSY SINGAPORE

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FROM TREASURY BARNARD FOR TREASURY/OASIA

E.O. 11652: N/-

TAGS: EFIN

SUBJ: HK FINANCIAL MARKETS: US DOLLAR STRONGER, PEKING

ADJUSTS RMB RATE AGAIN, STOCK MARKET DIVES

REF: HONG KONG 6953

1. US DOLLAR STRENGTHENED YESTERDAY AND TODAY ON QUIET TRADING, WITH BUYING MOSTLY FROM BANKS TO MEET NORMAL REQUIREMENTS. NO EVIDENCE OF EXCHANGE FUND INTERVENTION SINCE MONDAY. PRICE AT 1500 JULY 11 WAS TT BUYING HK\$4.9825 AND OD BUYING 4.9775. FINSEC HADDON-CAVE IN RESPONSE TO QUESTIONS ABOUT POSSIBLE REVALUATION OF HK DOLLAR SAID THERE NO EVIDENCE TO SUGGEST PRESENT CENTRAL RATE WITH US DOLLAR (5.085) NEEDED TO BE CHANGED. EXCHANGE TRADERS EXPECT THAT NEWS FROM EUROPE, PLUS FINSEC'S ANNOUNCEMENT AND INDICATIONS OF MONDAY'S INTERVENTION WILL DISCOURAGE FURTHER SPECULATION AND THAT US DOLLAR WILL CONTINUE SHOW STRENGTH.

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2. MOST SURPRISING EVENT TODAY WAS ANOTHER JKJUSTMENT OF RMB/HK\$

RATE FROM YESTERDAY'S 36.11 TO 37.95 PER HK\$100, RETURNING ALMOST TO THE 38.00 RATE ANNOUNCED JUNE 21. AS USUAL, NO EXPLANATION GIVEN BY BANK OF CHINA, AND NONE OF THEORIES ADVANCED BY EXCHANGE TRADERS MAKE ANY SENSE SO WE DON'T KNOW WHAT BEHIND TWO RATE CHANGES IN TWO DAYS. HADDON-CAVE DID EXPRESS "SURPRISE" AT YESTERDAY'S 5 PERCENT REVALUATION AGAINST HK DOLLAR AT TIME WHEN LATTER WAS STRONGER AGAINST BOTH US DOLLAR AND STERLING, AND PAPERS HEADLINED FACT THAT TUESDAY'S CHANGE WOULD INCREASE COLONY'S GROCERY BILLS. ALSO TODAY, FOR FIRST TIME IN SEVERAL WEEKS, BANK OF CHINA REFUSED TO QUOTE RMB RATES ON CURRENCIES OTHER THAN HK DOLLAR. TO AN INQUIRING BANK, BOC RESPONSE WAS "WHAT KIND OF TRANSACTIONS DO YOU HAVE (THAT YOU NEED THE RATES?)". THIS MORE IN ACCORDANCE WITH WHAT WE HAVE UNDERSTOOD TO BE NORMAL POLICY ON RATE QUOTATIONS-- SUPPLY ONLY ON A NEED-TO-KNOW BASIS.

3. STOCK MARKET DROPPED 14 PERCENT IN THREE DAYS THIS WEEK, WITH HANG SENG INDEX CLOSING TODAY AT 494. THIS IS A 72 PERCENT DECLINE FROM MARCH HIGH OF 1775 AND SOME THINK INDEX MAY DROP BELOW 400 BEFORE

IT FINDS BOTTOM. A SOLICITOR WHO HANDLES CORPORATE BUSINESS SAYS IF MARKET CONTINUES DOWN MUCH MORE THERE WILL BE A WAVE OF BANKRUPTCIES IN TOWN. A BANKER SAID EVEN TODAY'S DECLINE WILL COMPEL HIM TO ISSUE A NUMBER OF SIZEABLE MARGIN CALLS AND THAT FURTHER EROSION OF THE MARKET WILL PUT SOME OF HIS CUSTOMERS IN SERIOUS TROUBLE. ANOTHER BANKER REPORTS THAT SEVERAL LOCAL CHINESE BANKS IN THE HK \$300-500 MILLION ASSET RANGE ARE AS MUCH AS 90 PERCENT LOANED UP (THE MAY ADVANCE/DEPOSIT RATIO FOR ALL BANKS IN HK WAS 86 PERCENT). AND HOLDING SHARE COLLATERAL NOW WORTH SUBSTANTIALLY LESS THAN THE LOANS MADE ON THE SHARES. WITH LITTLE PROSPECT OF IMPROVING LIQUIDITY IN THE NEAR TERM HE PREDICTS SOME OF THESE BANKS WILL BE UP FOR SALE IF THE SITUATION GETS ANY WORSE, BUT, HE NOTES, THERE ARE PLENTY OF FOREIGN BANKS WAITING TO PROVIDE FUNDS IN EXCHANGE FOR AN EQUITY POSITION IN A LOCAL INSTITUTION HOLDING A MUCH SOUGHT AFTER HK BANKING LICENSE. OSBORN

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